

SUBCOMMITTEE NO. 4

Agenda

Senator Mike Machado, Chair
Senator Robert Dutton
Senator Christine Kehoe



Wednesday, March 26, 2008
9:30 a.m.
Room 113

Consultant: Bryan Ehlers

Item Number and Title

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Attachment A—Approved CalATERS Exemptions

Attachment B—Letter to Senator Machado from the OAL

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

Items Proposed for Vote-only

0850 California State Lottery Commission

The California Constitution authorizes the establishment of a statewide lottery. An initiative statute, the California State Lottery Act of 1984 (Act), created the California State Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The primary purpose of the Act is to provide supplemental monies to benefit public education without the imposition of additional or increased taxes. The lottery is administered by a five-person Commission appointed by the Governor and confirmed by the State Senate.

Staff Comment: The Lottery forecasts revenue projections in May/June annually. However, because of the inherently variable nature of lottery ticket sales, revenue estimates for 2007-08 and 2008-09 cannot be made with certainty. The Governor's Budget contains the Lottery's "Statement of Operations" and "Distribution of State Lottery Education Fund Revenues" for display purposes only, as the Act and subsequent legislation dictate the allocation of most lottery revenues and leave discretion to the Commission to allocate the remainder.

9860 Capital Outlay Planning and Studies Funding

This budget provides funding to be allocated by the Department of Finance to state agencies to develop design and cost information for new projects.

CS 11.10 Reporting of Statewide Software License Agreements

Control Section 11.10 generally sets the terms by which a department may enter into or amend a statewide software license agreement not previously approved by the Legislature when state funds are to be used in the current or future budget years.

Staff Comment: The Administration has proposed no changes to this control section.

STAFF RECOMMENDATION ON VOTE-ONLY ITEMS: APPROVE all vote-only items as proposed by the Governor.

VOTE on Vote-Only Items:

Items Proposed for Discussion

0502 Office of the Chief Information Officer

The Office of the Chief Information Officer (OCIO) establishes and enforces statewide information technology strategic plans, policies, standards, and enterprise architecture, and provides review and oversight of information technology projects for all state departments.

The OCIO was created under Chapter 183, Statutes of 2007 (SB 90—Budget Trailer Bill), and was initially provided \$4.7 million special fund, and 23.4 positions in FY 2007-08. The Governor's Budget proposes \$6.7 million GF and 32.3 positions for the OCIO in FY 2008-09.

DISCUSSION ITEMS:

1. Informational Item: Update on Progress Toward Establishing the OCIO (Implementation of Chapter 183, Statutes of 2007—SB 90). SB 90 (Committee on Budget and Fiscal Review) of 2007 authorized the Office of the State Chief Information Officer (OCIO) to establish and enforce information technology (IT) strategic plans, policies, standards, and enterprise architecture; and approve, suspend, terminate, and reinstate IT projects for all state departments (with certain exceptions). Additionally, the bill called for the transfer, effective January 1, 2008, of the majority of the Office of Technology Review, Oversight, and Security (OTROS) from the Department of Finance to the OCIO. The measure also required the OCIO to produce an annual IT strategic plan beginning January 15, 2009.

Staff Comment: On December 6, 2007, the Governor appointed Teresa (Teri) M. Takai as the state chief information officer (CIO). Ms. Takai previously served as director of the Michigan Department of Information Technology (MDIT) beginning in 2003, and also served as the state's chief information officer. In this position, she restructured and consolidated Michigan's resources by merging the state's information technology into one centralized department to service 19 agencies and over 1,700 employees. The subcommittee may wish to hear from the CIO on the steps she has taken to date to implement SB 90.

Additionally, the subcommittee may wish Ms. Takai to respond to some or all of the following questions:

1. Having recently relocated to California from Michigan, what are the strengths and weaknesses of California's IT as you begin your tenure as the state CIO? For example, how does California compare to Michigan or other large states? Are the challenges facing California's IT largely similar to other states? Or, are there challenges unique to California?
2. What is your vision for California's IT both in the near-term (the coming year) and the long-term (the next three to five years)? What concrete steps are necessary in the coming months and by what milestones will the Legislature know that we are headed in the right direction?

3. How do you envision the OCIO's relationship with other state agencies? For example, to what extent (and how) will input from the various state agencies be elicited in shaping statewide IT policy, and to what extent will the OCIO need to function as a control agency in a "top-down" mode?

2. Pro Rata/SWCAP Cost Recovery Proposal. The Governor's Budget includes \$6.7 million GF as an ongoing funding source for the OCIO. The Administration proposes to use a Pro Rata and Statewide Cost Allocation Plan (SWCAP) cost recovery program to support the GF expenditure.

Staff Comment: When implementation of the OCIO was approved last year, the Legislature approved funding on a one-time basis from the Department of Technology Services (DTS) Revolving Fund. Because the DTS does not serve all state agencies, but the OCIO does, the agreement was that a more appropriate permanent funding source would have been identified beginning in Fiscal Year (FY) 2008-09.

Staff notes that a number of central service departments such as the State Controller's Office, the State Treasurer's Office, and the Department of Finance (DOF), currently operate on a Pro Rata and SWCAP cost recovery program. On paper, these departments are general funded, but they use Pro Rata and SWCAP to collect special and federal funds (respectively) as partial reimbursement for the services they provide to other state agencies. Under this proposal, the OCIO would effectively bill all state agencies, whether general funded, special funded, or federal funded, for their fair share of the OCIO's costs.

Staff Recommendation: APPROVE the OCIO budget.

VOTE:

3. Informational Item: Clear Reporting to Legislature on OCIO Delegation of Authority to Departments. In establishing the OCIO, SB 90 added language to the Government Code (Section 11546(b)) providing the office the authority to delegate any of its project authority to a department based on the OCIO's assessment of the department's project management, project oversight, and project performance.

Staff Comment: In order to maintain a clear chain of accountability, the subcommittee may wish the Administration to clarify how the Legislature would be notified when the OCIO delegates its authority.

4. Informational Item: OCIO Not Asked to Participate in Governor's Ten Percent Across-the-Board GF Reductions. The Governor proposes 10-percent, across-the-board reductions for all General Fund departments and programs, Boards, Commissions, and elected offices—including the legislative and judicial branches—except where such a reduction is in conflict with the state constitution or impractical.

Staff Comment: Staff notes that the Governor did not propose to reduce the OCIO budget despite the fact that such a reduction would be neither unconstitutional nor impractical. The subcommittee may wish the Administration to explain why the OCIO was not required to take a reduction like other general funded departments.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with legislative analysis and planning, policy research, and liaison with local governments, and also oversees programs for small business advocacy, rural policy, and environmental justice. Additionally, the office has responsibilities pertaining to state planning, California Environmental Quality Act (CEQA) assistance, environmental and federal project review procedures, and volunteerism. The California Volunteers program administers the federal AmeriCorps and Citizen Corps programs and works to increase the number of Californians involved with service and volunteerism.

The Governor's Budget begins by funding 99.1 positions (including 7.0 new positions) and budget expenditures of \$52 million (including \$10.6 million General Fund) for the department, but then includes a 10 percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of approximately \$1.0 million. The individual BBRs are as follows:

Program	General Fund*	Personnel Years (PYs)
State Planning and Policy Development	-\$431	--
California Volunteers	-\$627	--
TOTALS	-\$1,058	--

(*dollars in thousands)

As illustrated in the table below, the net effect of the Governor's proposals would be a 3.0 percent decrease in total funds from adjusted Fiscal Year 2007-08, including approximately \$1.2 million less in GF.

	Total Funds*	General Fund*	Positions
Adjusted 2007-08 Budget	\$52,611	(\$10,678)	96.1
2008-09 Base Budget	\$52,041	(\$10,581)	99.1
Proposed Budget-Balancing Reductions	-\$1,058	(\$-1,058)	--
GOVERNOR'S REVISED 2008-09 TOTALS	\$50,983	(\$9,523)	99.1
Change—Year Over Year	-3.0%	-10.9%	+3.1%

(*dollars in thousands)

DISCUSSION ITEMS:

1. BCP-1: Senate Bill 97 Implementation, CEQA Guidelines. The OPR requests \$537,000 GF and 4.0 positions on a one-time basis to implement Chapter 185, Statutes of 2007 (SB 97—Dutton), which requires the OPR to prepare and transmit to the Resources Agency by July 1, 2009, draft guidelines (state regulations) for the mitigation of greenhouse gas emissions, as required by CEQA.

Staff Comments: The CEQA, as the state's primary environmental law, requires analysis and disclosure of potentially significant environmental impacts before a public agency approves a project. The CEQA guidelines are the state regulations that explain and further interpret the CEQA statute for both public agencies and for the public generally, so that the CEQA process is understandable to those who administer it, to those subject to it, and to those who benefit from its existence.

Staff notes that the OPR is already home to the State Clearinghouse (SCH), which coordinates the distribution of environmental documents prepared under the CEQA to state agencies for their review and comment, and the OPR is also currently responsible for recommending guideline revisions to the Resources Agency (which, according to OPR staff, it has done on an average of every 2-3 years for the last 9 years). Notwithstanding the OPR's expertise in CEQA matters, the office indicates that it does not currently possess the staff resources or expertise necessary to engage in a timely manner an issue as complex and contentious as mitigation of greenhouse gas emissions. Therefore, the OPR requests a scientist and an attorney, as well as a program director and an administrative assistant, to carry out the requirements of SB 97.

Staff Recommendation: APPROVE the request.

VOTE:

2. BCP-2: California Volunteer Matching Network. The OPR requests \$766,000 GF and 3.0 positions ongoing to continue the California Volunteer Matching Network (CVMN).

Staff Comments: The 2006-07 Budget Act provided: (1) two-year, limited-term funding for the CVMN to launch a Web site that pulls together local volunteering opportunities and posts them all in a single, state-operated database; and (2) assistance to existing walk-in volunteer "hubs" (henceforth, Hubs) which are operated by nonprofit organizations and help match potential volunteers with volunteer opportunities. The Administration requests to permanently establish the CVMN.

According to the OPR, the CVMN addresses a "gap" between the need for volunteers and the Californians who would serve if given access to the information they need to connect with volunteer opportunities in their communities. The OPR cites increases in the number of visitors to Hub websites and the number of volunteers registered in Hub databases as evidence that the CVMN is in fact filling the alleged gap and turning "would-be" volunteers into "real" volunteers.

Staff notes, however, that the OPR is unable to track the number of CVMN users who actually decide to volunteer, and, more importantly, the OPR cannot provide conclusive evidence that the CVMN induces people to volunteer who would not have otherwise. As noted by the Legislative Analyst's Office (LAO) in its "Analysis of the 2008-09 Budget Bill," there are many Web sites that provide potential volunteers the ability to search for opportunities in the state. While the OPR claims credit for having linked at least 4,000 people with VolunteerSanDiego.org during last summer's fires in that region, there is no reason to believe that many, if not all, of these volunteers would not have located volunteer opportunities through other means (for example, the www.HelpinDisaster.org).

Ultimately, the lack of evidence showing a causal link between the CVMN and increased volunteerism is not a sufficient basis for concluding that the CVMN provides no benefit to the state. However, the lack of evidence identifying a clear and quantifiable benefit is sufficient to place the CVMN well down the list of priorities for the use of scarce GF that could otherwise be used to fund programs with well-documented benefits. This being the case, the subcommittee may wish to deny the requested GF, but encourage the OPR to return with a plan, including Trailer Bill Language, to continue the program using non-state funds (similar to the model currently employed to fund the state's international trade office in Armenia). If the CVMN is as valuable to volunteerism in the state of California as the OPR maintains, perhaps a philanthropic organization (or organizations) would be willing to provide the funding necessary to carry on the work the state has piloted.

Staff Recommendation: DENY the request, but invite the Administration to return with a proposal to continue the CVMN with non-state funding.

VOTE:

3. BBR: California Volunteer Marketing Network—Reduction in Marketing Funds.

The Governor proposes a \$127,000 GF reduction to the funding available to contract for marketing expertise and activities that would assist in promoting the CVMN to Californians.

Staff Comments: During Special Session, the Legislature approved a \$375,000 GF reduction in the current fiscal year for these same activities. If the subcommittee denies Item 2 (above), then this proposal is moot and should be denied. However, if Item 2 is approved, then the subcommittee may wish to increase this reduction consistent with action taken in Special Session.

Staff Recommendation: DENY the proposed reduction (because it would be redundant of the staff recommended action in Item 2, above).

VOTE:

4. BBR: Reduction in Cesar Chavez Grant Program. The Governor proposes to reduce by \$500,000 GF the amount of funding available for grants that support afterschool service learning programs in middle schools and/or legacy projects in local communities.

Staff Comments: The Cesar Chavez Day of Service and Learning program is established in state statute with an annual appropriation of \$5 million GF to promote service to the communities of California in honor of the life and work of Cesar Chavez. Under the program, California Volunteers makes grants to specified programs that engage students in community service that may qualify as instructional time on Cesar Chavez Day and meet certain criteria specified in statute.

These grants were suspended previously from 2003-04 through 2005-06, due to the state's budget shortfalls, and the LAO recommends doing so again in order to save \$5 million GF in 2008-09. Staff notes that the following Trailer Bill Language would mirror language adopted previously by suspending the appropriation for two years:

Section 6 of Chapter 213 of the Statutes of 2000 is amended to read:

SEC. 6. The following sums are hereby appropriated from the General Fund to be allocated according to the following schedule:

(a)(1) Five million dollars (\$5,000,000) to the California Commission on Improving Life Through Service, on an annual basis, for the purpose of funding grants to local and state operated Americorps and Conservation Corps programs, up to 5 percent of which may be used for state level administration costs.

(2) This subdivision shall be inoperative from July 1, 2008, to June 30, 2010.

(b) One million dollars (\$1,000,000) to the Superintendent of Public Instruction for the purpose of developing or revising, as needed, a model curriculum on the life and work of Cesar Chavez and distributing that curriculum to each school.

Staff Recommendation: INCREASE the proposed reduction by \$4.5 million GF (for a total of \$5 million), and DENY the Administration's proposed trailer bill language. Instead, APPROVE the language above in order to effectuate the \$5 million reduction.

VOTE:

VOTE-ONLY ITEM:

1. BBR: Reduction of State Planning and Policy Development Program. The Governor proposes a \$431,000 GF reduction to this program, whose major activities include: (1) policy research for the Governor and Cabinet; (2) recommending and implementing state policies with regard to land-use and growth planning, including joint use land planning with the military; (3) providing technical advice to local governments with regard to planning; and (4) advising permit applicants and government agencies on provision of the CEQA and operates the SCH for environmental and federal grant documents.

Staff Comments: The OPR has indicated the following regarding this proposed reduction:

OPR has crafted its budget to maintain statutory operations and current service expectations at the SCH. The SCH currently achieves a one-day turn around on

most document processing and data entry activities; this rate exceeds the statutorily required three day maximum. While it is not our intent, as we are proactively realigning workload in other units as well as cross training to leverage personnel skill sets, the budget may impact the SCH in the following ways:

- Processing of draft documents may be extended to the maximum 3 day turn around.*
- Entry of documents to the database may be delayed.*
- Technical assistance may be reduced in order to keep up with the daily statutory responsibilities related to processing and posting of the CEQA documents.*
- Training and outreach to state agencies may decrease.*
- Involvement on state agency working groups and presentations for state agencies would be significantly limited, so SCH staff can focus on our core statutory obligations.*

Specifically, OPR will achieve its BY reductions through the following actions:

Personnel:

- Two positions to remain vacant (research/policy and legislation)*
- Reduce student assistants*

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- Travel: moratorium on non-essential travel*
- Training, Conferences Seminars: reduction in non-essential participation*
- Equipment: replacement delayed and unused equipment contracts terminated*
- Telecommunications: usage reductions and contracts reevaluated (done)*
- Subscriptions: reduced or cancelled*
- Existing Contracts: negotiations to lock in 2007-08 rates*

STAFF RECOMMENDATION ON VOTE-ONLY ITEM: APPROVE AS BUDGETED.

VOTE on Vote-Only Item:

0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller's Office (SCO) are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs.

The Governor's Budget begins by funding 1,386.3 positions (a net decrease of 2.2 positions over adjusted current year totals) and budget expenditures of \$185.7 million (including \$89.9 million GF) for the department, but then includes a 10-percent, across-the-board, unallocated GF reduction (Budget-Balancing Reduction–BBR) of approximately \$9.0 million.

VOTE-ONLY ITEMS:

1. BCP-2B: Transportation Audits. The SCO requests 15.0 positions and \$1.9 million in reimbursement authority to provide audit services to the California Department of Transportation (Caltrans) for Proposition 1B funds.

Staff Comments: Proposition 1B of 2006 authorized \$19.5 billion in general obligation bonds for various transportation projects. Caltrans has primary responsibility over administration of the funds and has requested the SCO to provide audit services for at least seven years through an interagency agreement. The following table reflects the SCO's anticipated audit costs, which would be funded through bond proceeds:

Year	Positions	Funding
2007-08	12.0	\$1,484,000
2008-09	15.0	\$1,876,000
2009-10	17.0	\$2,168,000
2010-11	17.0	\$2,168,000
2011-12	17.0	\$2,167,000
2012-13	17.0	\$2,178,000
2013-14	19.0	\$2,411,000

Staff notes that, as reflected in the table, the SCO began work on these audits in the current fiscal year (CY) through a technical adjustment to its reimbursement authority. The funding for the audits had already been approved during the 2007-08 budget process as part of a Spring Finance Letter.

2. BCP-2C: California State University Audits. The SCO requests 4.0 positions and \$422,000 in reimbursement authority to provide audit services to the various California State University (CSU) campuses.

Staff Comments: Chapter 79, Statutes of 2006 (AB 1802) revised the Education Code to permit the 23 individual CSU campuses to deposit into a local trust account the monies they collect for higher education tuition and fees from students. While this meant that CSU tuition and fees would no longer be appropriated through the state's normal budgetary process, AB 1802 provided for oversight by authorizing the SCO to conduct audits of the trust accounts to verify that sufficient controls exist to ensure that payments from the trust accounts are legal and proper.

Through a technical adjustment to the CY budget, the SCO has already begun work on these audits, and indicates they will be ongoing for as long as the student fee trust accounts exist.

3. BCP-8: Bond and PMIA Loan Program. The SCO requests 3.0 positions and \$277,000 in reimbursement authority to address the increased number of bonds and associated loans being processed in the state's Bond Pooled Money Investment Account (PMIA) Loan Program.

Staff Comments: According to the SCO, the number of bonds, loans and associated accounts has tripled since 1987, and the Bond Acts passed by the voters in 2006 and being implemented in the current fiscal year will include more than 100 new bond/loan accounts. Although the 3.0 existing staff associated with this workload have managed to address much of the historical increase through improved efficiency (primarily generated by the transition from paper to electronic processes), the SCO indicates redirection and overtime are no longer sufficient to fill the emerging staff deficit.

Staff notes that the State Treasurer's Office budget contains a request for the bond fund authority necessary to supply the SCO with the reimbursement for these activities.

4. BCP-10: Governmental Accounting Standards Board (GASB) Statement No. 45 Workload. The SCO requests 2.0 positions (including conversion of 1.0 limited-term positions to permanent) and \$399,000 (\$200,000 Unallocated Bond Funds and \$199,000 Public Employees' Health Care Fund) to perform work related to compliance with new requirements for GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). Of the requested amount, \$186,000 would be used to fund the 2.0 positions and \$213,000 would be used for contracts.

Staff Comments: GASB is the standard setting body that promulgates Generally Accepted Accounting Principles (GAAP). Producing GAAP-compliant annual financial statements helps disclose the quality of the state's financial management and assists in the process of issuing debt by protecting the state's credit rating.

5. BCP-12: Remittance Processing Workload. The SCO requests 1.0 position and \$93,000 in reimbursement authority to address increased workload related to revenues processed from counties and courts.

Staff Comments: The number of remittances received by the SCO has increased steadily over the past 10-15 years, while multiple new laws have increased the complexity and expanded the scope of the work required to process each remittance.

STAFF RECOMMENDATION ON VOTE-ONLY ITEMS: APPROVE AS BUDGETED.

VOTE on Vote-Only Items 1 through 5:

DISCUSSION ITEMS:

1. BCP-3B: Unclaimed Property Program Fund Shift. The SCO proposes to convert GF appropriations for Unclaimed Property Program (UCP) functions to Unclaimed Property Fund appropriations. For FY 2008-09, this would reduce the SCO's GF appropriation by \$26.1 million and increase the Unclaimed Property Fund appropriation by the same amount.

Staff Comments: Because monies in the Unclaimed Property Fund are ultimately revenue to the GF (if unclaimed by the rightful owner), this proposal would neither help nor harm the state's bottom line. However, by moving support for the UCP out from under the "General Fund" umbrella, this proposal would serve to insulate the program against future fluctuations in GF availability. For example, a 10-percent, across-the-board GF reduction would not affect the UCP under this proposal. Staff notes that safeguarding the program's funding would better protect the property rights of the state's citizens, and would be consistent with the direction the state has received from the courts involved in the current and ongoing UCP litigation.

Staff Recommendation: APPROVE the request.

VOTE:

2. BCP-7: Local Government E-Claim System. The SCO requests 4.5 two-year limited-term positions and \$444,000 GF to support the maintenance and operations of the Local Government E-Claims system (LGeC).

Staff Comments: The LGeC project was approved in FY 2005-06 in order to enable claimants and their consultants to securely submit mandated cost claims electronically into the SCO's Local Reimbursements system. The original project Feasibility Study Report called for a commercial off-the-shelf solution (COTS), estimated completion on November 30, 2006, and projected savings of \$14.7 million beginning in 2006-07. However, due to the inadequacy of the original Adobe solution, the LGeC required a customized solution and the project was not completed until November 2007 (and will not be 100-percent operable until June 30, 2008). Staff notes that the LGeC is anticipated to save approximately \$11.8 million per year beginning in 2009-10.

The primary reason for the reduction in estimated savings and the need for additional positions is that the final, customized solution requires in-house ongoing maintenance and support, whereas under the COTS the vendor would have supplied these services.

The SCO indicates that 3.0 positions previously dedicated to desk audits (and therefore the generation of savings) have already been redirected to address this workload, and the requested limited-term positions reflect the minimum complement of additional staffing required to keep the system operational. Staff notes that, according to the SCO, the LGeC system would cease to function reliably and accurately without the maintenance to be provided by the requested positions.

If approved, the SCO proposes to monitor workload throughout the next fiscal year and return during the 2009-10 budget process with a clarified request based on a refined estimate of its long-term need.

Staff Recommendation: APPROVE as budgeted.

VOTE:

3. BCP-11: California Child Support Automation System (CCSAS). The SCO requests 2.0 limited-term positions and \$201,000 in reimbursement authority to fulfill its constitutional and statutory responsibilities associated with implementing and monitoring the CCSAS.

Staff Comments: This proposal comports with the 2008-09 Budget Change Proposal and Special Project Report submitted by the Department of Child Support Services, which provides reimbursements to the SCO. Staff notes that this is the fourth year of the SCO's participation in this project.

Staff Recommendation: CLOSE the item recognizing that it will conform to the action taken in Budget Subcommittee #3 on the DCSS budget.

VOTE:

4. BCP-4A: Human Resources Management System/21st Century Project. The SCO requests 70.5 limited-term positions and \$38.3 million (\$21.9 GF; 2.9 reimbursements; and \$13.5 million special funds).

Staff Comment: This request is part of an ongoing multi-year project (which was first funded in FY 2005-06) to replace existing employment history, payroll, leave accounting, and position control systems. The HRMS will also include a statewide time and attendance capability, greatly enhancing the Controller, Administration, and Legislature's fiscal oversight abilities. For example, it is expected that the system will eventually capture actual salary savings at each department, replacing the arbitrary five percent standard used statewide today.

Staff notes that a revised Special Project Report is currently under review by the Department of Finance and a Spring Finance Letter will be developed and submitted to reflect changes to this proposal.

Staff Recommendation: HOLD OPEN, pending Spring Finance Letter.

5. BCP-4B: Human Resources Management System/21st Century Project Federal Fund Repayment. The SCO requests \$969,000 for reimbursement of federal funds collected in 2005-06 and 2006-07.

Staff Comment: As noted in the previous item, staff anticipate a Spring Finance Letter on the 21st Century Project, so the subcommittee should await its arrival before taking action on any related BCPs.

Staff Recommendation: HOLD OPEN, pending Spring Finance Letter.

6. BBR: Unallocated General Fund Reduction. The Governor proposes a \$9.0 million unallocated reduction to the SCO's GF budget.

Staff Comments: To date, the Administration has not provided any information on how this reduction would be taken, or how it would impact SCO programs. SCO and DOF staff indicate there are ongoing talks between the two agencies regarding if and how the SCO would take the \$9.0 million reduction (or some smaller portion thereof). Staff notes that the SCO's 10-percent reduction was calculated on a \$90 million 2008-09 GF budget that includes not only \$21 million for the 21st Century Project, but funding for constitutionally required workload such as payroll and apportionments to locals. For this reason, the SCO may have limited flexibility in terms of where it can apply any proposed reduction.

Staff Recommendation: HOLD OPEN, pending further information from the Administration.

7. Informational Item: California Automated Travel Reimbursement System's (CalATERS) Statewide Rollout. CalATERS is an automated travel expense processing system that allows state employees and department accounting offices the ability to process travel advances and expense reimbursements via the internet or an intranet. In 2007-08, the Legislature approved positions and funding for the SCO to rollout CalATERS statewide as mandated by Chapter 69, Statutes of 2006 (AB 1806).

Staff Comments: The original CalATERS study, conducted in 1995, projected annual statewide savings from an automated travel expense system of approximately \$7.8 million. However, in considering last year's CalATERS proposal, this subcommittee heard discussion of the potential impact granting certain departments exemptions from participation in the program would have on these potential savings. At the time, the SCO indicated that Caltrans was one of only three departments that had sought an exemption, and estimated Caltrans' non-participation in CalATERS would reduce statewide savings by approximately \$800,000 (or roughly 10.5%).

On February 1, 2008, the DOF submitted a notification of approved exemptions for CalATERS that included 23 state entities (see Attachment A). Although Caltrans still remains by far the largest agency exempted from the program, the subcommittee may wish the SCO to comment on: (1) the impact these exemptions will have on the effectiveness of CalATERS in generating savings to the state; (2) the steps the Administration plans to take to bring all state agencies under a single, automated travel

expense system; (3) the future impact on CalATERS if the state moves ahead with the FI\$Cal project.

0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary law and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Divisions.

The Governor's Budget begins by funding 505.0 positions (a net increase of 7.0 positions over adjusted current year totals) and budget expenditures of \$125.6 million (including \$35.0 million GF) for the department, but then includes a 10-percent, across-the-board, unallocated GF reduction (Budget-Balancing Reduction–BBR) of approximately \$3.5 million.

VOTE-ONLY ITEM:

BCP-5: AB 917 Election Security—Parallel Monitoring. The SOS requests \$101,000 GF to implement Chapter 501, Statutes of 2007 (AB 917). SB 917 requires, among other provisions, that the SOS conduct parallel monitoring of each direct recording electronic (DRE) voting system on which ballots will be cast (in precincts that have more than one DRE voting system).

Staff Comments: The need for parallel monitoring was dramatically reduced as a result of the SOS's 2007 Top-to-Bottom Review, which decertified all but one DRE system (Hart Inter-Civic). Currently, only Orange and San Mateo counties use DRE systems that fall under the provisions of SB 917. Staff notes that out-year costs of AB 917 could rise if either more DRE systems become certified or more counties switch to use of Hart Inter-Civic systems.

Staff notes that the parallel monitoring was requested and authorized in the 2007-08 Help America Vote Act (HAVA) Spending Plan; however, those funds cannot be used as HAVA funds cannot be used to supplant state-mandated programs.

STAFF RECOMMENDATION ON VOTE ONLY ITEM: APPROVE AS BUDGETED.

VOTE on Vote-Only Item:

DISCUSSION ITEMS:

1. BCP-1: Revised Spending Plan for Help America Vote Act Expenditures. The Governor's Budget includes \$42.3 million in federal fund expenditure authority (\$3.5 million in this item and \$38.8 million in the next item) to continue implementing HAVA in

accordance with a revised expenditure plan. By the end of the current fiscal year, California will have received approximately \$387.3 million in federal funds (including interest) for voter equipment replacement, voter education, and related activities. Of the \$42.3 million requested for expenditure in the budget, \$38.8 million will be used to begin implementing the VoteCal statewide voter database (see BCP-2 below), \$1.1 million to provide election assistance for people with disabilities, \$1.7 million for administration, and \$1.2 million for other elections-related activities (including voter education and voting systems testing/certification).

Staff Comments: Based on an LAO recommendation, the Legislature reduced the HAVA budget by \$308,000 in administrative expenses last year in recognition of the fact that most HAVA requirements were implemented in time for the 2004 and 2006 elections and in anticipation of the ramping down of HAVA activities. Staff notes that the spending plan before the subcommittee this year is substantially the same as the current year adjusted HAVA budget, and the SOS indicates that it is unclear when HAVA workload will “taper off.”

According to the SOS, the HAVA landscape continues to shift and the proposed spending plan reflects the SOS’s need to adjust to changes at both the federal and state level. For example, the SOS notes the following developments:

- Congress just provided a new round of HAVA funding that may only be accessed by states after they have developed a new State Plan describing how they will continue to implement HAVA. California would be eligible for up to \$12.9 million of these funds, but needs an advisory committee to develop the aforementioned State Plan.
- Counties are not spending their available funds as quickly as anticipated and, combined with the need to produce an ongoing spending plan, respond to audits (most recently by the Bureau of State Audits), and produce quarterly and annual reports to the Legislature, the budgeting, accounting, contracting, and administrative oversight workload is not decreasing.
- There has been a significant “evolution” in major policy arenas that directly affect the administration of HAVA. Notably, there have been changes at both the state and federal level associated with the testing and certification of voting systems, including DRE systems. Additionally, the SOS must still fulfill the terms of a binding Memorandum of Agreement between the state and the United States Department of Justice, which requires the establishment of a fully compliant, long-term statewide voter registration database (VoteCal—discussed below).

Staff notes that the proposed plan estimates a \$51 million balance in HAVA funds would remain after 2008-09, and projects that approximately \$25.5 million would go unspent following cessation of planned activities in 2010-11.

Staff Recommendation: APPROVE as budgeted.

VOTE:

2. BCP: Voter Registration Database Replacement (VoteCal). The Secretary of State requests 10.0 positions and \$38.8 million in federal fund expenditure authority to replace the existing CalVoter statewide voter database with a more centralized and

technologically advanced VoteCal database, and to remediate the existing county Election Management System. The VoteCal database will contain the name and registration information for every legally registered active or inactive voter in California. After all federal HAVA funds are expended these positions will be funded by state General Fund.

Staff Comments: The Legislature provided 12.0 positions and \$6.9 million in federal fund expenditure authority to the VoteCal project for the current fiscal year. To date, the SOS has completed the initial procurement phase of the VoteCal project, including selection of project management services, Independent Verification and Validation services, and Independent Project Oversight Consultant and procurement vendor. The project is currently in the Vendor Selection and Project Planning Phase, which is scheduled to last throughout most of the rest of the 2008 calendar year—with the vendor contract to be awarded in December. The SOS currently anticipates the VoteCal system will be deployed in December 2009.

Although this request is consistent with an approved Feasibility Study Report (dated March 20, 2006) and an August 15, 2007, Special Project Report (SPR), an updated SPR is anticipated to be submitted in September 2008. The total project costs, including the staffing and Operating Expenses and Equipment are subject to change once a vendor is selected; however, the SOS remains optimistic that the project can be implemented for less than the original cost estimate because that estimate was based on a custom software development, and the SOS now believes that the bidders will propose substantial use of existing software. Staff notes that the rate of inflation since the estimate was made in 2004 could offset some or all of these reduced costs.

As noted last year, the VoteCal system represents an unknown out-year General Fund pressure because the state will have to fund the operation and maintenance of the system after federal funds are exhausted, which is anticipated to occur after FY 2010-11.

Staff Recommendation: APPROVE as budgeted.

VOTE:

3. BCP-4: SB 854 Student Voter Registration. The SOS requests \$167,000 GF in 2008-09 (and \$333,000 ongoing) to pay for voter registration print costs associated with implementation of Chapter 481, Statutes of 2007 (SB 854). SB 854 requires that every California Community College and California State University offer an automated voter registration option during student class registration.

Staff Comments: As discussed in full Budget Committee hearings during the special session, the current fiscal crisis requires that the Legislature consider many options that would not ordinarily be on the table in better budgetary times. This includes deferral or elimination of funding for recently enacted legislation. The subcommittee may wish to consider deferral of funding for this legislation.

Staff Recommendation: DENY this proposal without prejudice toward the justification supplied by the SOS and notwithstanding the previous intent of the Legislature in passing SB 854. Encourage the SOS to address the requirements of SB 854 as best as is possible within existing resources and offer reconsideration of this proposal next year.

VOTE:

4. BCP-3: Archival Planning and Record Management. The SOS requests 1.0 position and \$92,000 GF to acquire, manage, and preserve California Supreme and Appellate Court records.

Staff Comments: The SOS indicates that the courts have recently begun releasing case files to the State Archives in an unprecedented volume, and large amounts of records are anticipated to be sent to the Archives continuing into the immediate future. According to the SOS, without additional staff to develop and maintain a plan for the Court Records Program, some vital court records may be destroyed and many others will not be available to the public because a backlog of records will develop.

Staff notes that the rationale for this request is legitimate insofar as many court records are important documents that should be preserved and made accessible to the public—be they other courts, law firms, government staff, or individual citizens. However, in view of the current fiscal crisis, using GF to provide access to historical documents does not rise to the same level of priority as supplying basic services to the citizenry of California. Notwithstanding the need for the Archives to develop a plan for the Court Records Program to rationalize the retention of court records, staff recommends denying this proposal. Staff notes that this action would delay access to certain court records.

Staff recommendation: DENY the proposal without prejudice and instruct the SOS to work with the courts to temporarily suspend or slow the transmission of court files during the fiscal crisis in order to enable the SOS to develop a long-term court records plan and continue to meet the current workload within existing resources. The Subcommittee may wish to offer reconsideration of this proposal under an improved fiscal outlook in a future budget.

VOTE:

5. BBR: Unallocated General Fund Reduction. The Governor proposes a \$3.5 million unallocated reduction to the SOS's GF budget.

Staff Comments: According to information recently provided to staff, the SOS would take its portion of the Governor's proposed 10-percent, across-the-board reduction in the following manner:

After a thorough and exhaustive review of expenditures, the SOS will reduce costs associated with the printing and mailing of the Voter Information Guide (VIG). These changes will result in a reduction to expenditures without significantly adversely affecting program related functions and activities. The cost of producing the VIG is a significant expenditure borne by the General Fund, which with at least one statewide election in every fiscal year, equates to a substantial ongoing commitment of funds.

Changes to the VIG will include:

- ❑ *Leaving the pullout guide in place but eliminating the perforation and special gluing associated with the current guide;*
- ❑ *Printing using only black ink;*
- ❑ *Using lighter weight newsprint;*
- ❑ *Reducing the overall dimensions of the guide; and*
- ❑ *Eliminating duplicate mailings to households (statutory change necessary).*

Based on prior expenditures, estimates and quotes, the SOS estimates it can save approximately \$3.5 million by implementing these changes.

Staff notes that approximately 97 percent of the GF received by the SOS goes to funding election and archival activities, with the remaining 3 percent (\$1 million) supporting other activities such as the confidential mail-forwarding program called Safe at Home that helps Californians escape abusive partners.

Staff Recommendation: APPROVE the reduction.

VOTE:

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security.

The Governor's Budget begins by funding 4,084.4 positions (a net increase of 127.6 positions relative to adjusted current year totals) and budget expenditures of \$1.2 billion (including \$7.9 million General Fund) for the department, but then includes a 10 percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of approximately \$794,000, to be taken from State Capitol maintenance and repairs program (see Vote-Only Item #1).

DISCUSSION ITEMS:

1. BCP-1: School Facilities Program (SFP)—Fiscal Services Staffing. The DGS requests 7.0 positions and \$740,000 (School Facilities Fund) for the Office of Public School Construction (OPSC) to address SFP audits, and to establish an automated and integrated audit information system.

Staff Comments: Under the direction of the State Allocation Board (SAB), the OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.

Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	\$7,350,000	\$636,233	\$360,180
Prop 55 (2004)	\$10,015,500	\$8,882,687	\$6,467,701
Prop 47 (2002)	\$11,400,000	\$10,878,052	\$9,662,379
Prop 1A (1998)	\$6,700,000	\$6,642,247	\$6,641,829
TOTAL	\$35,465,500	\$27,039,219	\$23,132,089

(*dollars in thousands)

As reflected in the table above, the OPSC has already disbursed over \$23 billion in school facilities and will send billions more “out the door” in the coming years. With these many billions of dollars invested in school facilities projects, the OPSC is also tasked with responsibility to audit the recipient projects (per Title 2 California Code of Regulations Section 1859.106) to ensure that the bond funds are expended in accordance with the law. Due to the fact that it can take more than nine years for a project to go from application to apportionment, from funding to expenditure, and finally

from the beginning to the end of the audit process (project closeout), some of the Prop 1A, many Prop 47, most Prop 55, and no Prop 1D projects have been closed out. The following table provides a snapshot of where the OPSC estimates each of the school facilities bonds is in terms of the progression from fund apportionment to final closeout:

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	11/1998 to 10/2002	11/2002 to 12/2006	03/2004 to 08/2008*	12/2006 to 03/2010*
# of Projects Not Yet Apportioned* (\$ Amount)	0	24 (\$0.1 billion)	454 (\$2.1 billion)	2,400 (\$7.0 billion)
# of Projects Apportioned, But Not Closed (\$ Amount)	363 (\$2.3 billion)	2,297 (\$9.0 billion)	2,207 (\$7.7 billion)	210 (\$0.3 billion)
# of Projects Closed (\$ Amount)	2,088 (\$3.9 billion)	1,297 (\$2.3 billion)	78 (\$0.1 billion)	0
Closeout Period*	4/2000 to 3/2011	5/2003 to 5/2015	10/2005 to 01/2017	05/2008 to 8/2018

(*estimated)

As reflected in the table above, although the OPSC has disbursed over 65 percent of the approved bond funds, the bulk of the audit and closeout workload will hit in the next ten years. For example, the OPSC indicates that its current audit workload 1,400 projects worth \$7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, the OPSC projects that the audit workload will swell to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years.

Staff notes that the request for 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC appears reasonable within the above context. However, the subcommittee may wish to question the OPSC regarding plans it is undertaking to more effectively target audits using risk-based assessment of projects. Since 2000, the OPSC Fiscal Services staff have recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP, but this has been accomplished treating each project audit more or less equally. If the OPSC is able to develop risk-based criteria and better prioritize staff time, the SFP audit program is liable to recover more dollars, or, at a minimum, better ensure that bond awards are being spent appropriately.

Additionally, the subcommittee may wish to inquire regarding the OPSC's plans to automate and integrate its existing audit information system. This effort is largely motivated by the need to meet the requirements of the Governor's *Executive Order S-02-07* which sets forth the Administration's plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

However, staff notes that there may be opportunities for the OPSC to develop its audit information system in such a way as to allow better tracking of how bond dollars are actually spent and the tangible results they produce at school sites. This information might better inform policy makers in deciding when to initiate and how to size the next education bond.

Staff notes that the Senate Budget Subcommittee #1 (on Education) may wish to make comment on this proposal.

Staff Recommendation: HOLD OPEN, pending comment/input from the budget subcommittee on education.

2. BCP-2: Williams Settlement-Program Services Staffing for the Emergency Repair Program (ERP). The DGS requests 2.0 positions and \$217,000 GF to process, review, and approve in a timely manner emergency repair requests from school districts seeking funding under the Williams Settlement.

Staff Comments: In August 2004, the state settled out of court with the plaintiffs of the *Williams v. California* lawsuit, which concerned K-12 education instructional materials, teacher qualifications, and facilities. The settlement applied primarily to schools that scored in deciles one through three of the 2003 Academic Performance Index (API), and the facilities portion of the settlement required schools to ensure facilities are clean, safe, and maintained in good repair.

Chapter 899, Statutes of 2004 (SB 6, Alpert), as part of the legislative package implementing the Williams Settlement, created the ERP and established a procedure whereby districts could apply to the state for supplemental funding to address emergency facility needs (for schools in deciles one through 3). The ERP was originally implemented as a reimbursement program in which eligible school districts were required to complete and make payment for the repair or replacements costs prior to submitting a request for funding. However, Chapter 704, Statutes of 2006 (AB 607, Goldberg) changed the ERP to a grant program. Whereas the original reimbursement program design made ERP funds difficult for many districts to access, the switch to a grant model has increased demand for the funds significantly.

Given the increased access to ERP funds via the grant program, the OPSC estimates that each of the 2,230 schools that were eligible for the ERP as of July 1, 2007, will file 2.5 ERP applications over the course of the next three years, resulting in 5,125 ERP applications over that time period, or 1,708 applications annually. Although, according to the OPSC, this projected workload would ordinarily justify 8.0 positions, the OPSC conservatively requests 2.0 positions to address increased ERP applications. The OPSC notes that there are currently approximately 1,400 ERP applications on its workload list and that the average processing time per application is approximately 160 days (well above the OPSCs goal of 90 to 120 days).

Staff Recommendation: HOLD OPEN, pending comment/input from the budget subcommittee on education.

3. TBL: Shift Emergency Repair Program Audit Responsibilities to Counties. The Administration proposes Budget Trailer Bill Language (TBL) to require a county superintendent or his or her designee to conduct financial and compliance audits of schools districts within his or her county that obtained ERP funds.

Staff Comments: The subcommittee may wish the Administration to explain why this proposal would not result in a state mandate, and to clarify how the state would maintain accountability from the counties in their audit efforts.

Staff Recommendation: HOLD OPEN, pending comment/input from the budget subcommittee on education.

4. BCP-4: Asset Enhancement and Surplus Property Sales-External Consultant Services. The DGS requests \$500,000 (special fund) to continue value enhancement of surplus state property that is located at the Lanterman Developmental Center in Pomona and at the Los Angeles Civic Center (former First and Broadway State Office Building).

Staff Comments: The Legislature approved \$500,000 (special funds) for value enhancement at the Lanterman and the Los Angeles Civic Center sites in the current year, and the Governor's Budget proposes additional resources to continue these activities. However, according to DGS staff, there have been delays to the activities funded in 2007-08, and the department now believes the following resources would be needed in 2008-09:

1. **Lanterman** – Due to delays, the DGS does not anticipate spending any of the \$500,000 appropriation in the current year. Instead, the department proposes to push out the project study one year, and requests that the Legislature reappropriate the FY 2007-08 funding for FY 2008-09. In addition, due to a change in the scope of the study, the DGS anticipates spending no more than \$300,000.
2. **Los Angeles Civic Center** – Due to delays, the DGS does not anticipate spending any of the \$500,000 appropriation in the current year. Instead, the department proposes to push out all project phases one year, and requests that the Legislature reappropriate the FY 2007-08 funding for FY 2008-09.

As discussed last year, enhancing these properties could increase their value by millions of dollars and generate a high rate of return on the state's enhancement investment.

Staff Recommendation: DENY the original request for additional funding contained in the 2008-09 Governor's Budget, but APPROVE reappropriation of \$800,000 (out of \$1,000,000) in existing funding. (Staff will develop reappropriation language in cooperation with DGS, DOF, and LAO.)

VOTE:

5. BCP-8: Real Estate Leasing and Space Planning Workload. The DGS requests 19.0 permanent and 4.0 limited-term positions and \$1.9 million (Service Revolving Fund) in order to address a backlog of leasing and planning workload.

Staff Comment: The Real Estate Leasing and Planning Section (RELPS) of the DGS' Real Estate Services Division's Professional Services Branch currently has 81.9 staff and an operating budget of \$11.6 million. According to the DGS, the RELPS is currently experiencing a backlog of 1,486 hours (or 49.2 weeks) per staff person for leasing projects and 2,573 (or 85.22 weeks) per person for space planning projects. The stated goal of this request is to reduce the backlog to an "acceptable" level of 906 hours (or 30 weeks) per staff person for leasing and planning.

The DGS indicates that the current backlog developed due to several factors including the following: (1) a recent spike in "unanticipated" workload such as the creation of the Department of Technology Services, the reorganization of the Department of Health Services, the downsizing of the Employment Development Department, the response to urgent mandates by the Department of Corrections, and the Governor's Green Building Action Plan; (2) increased work complexity due to very stringent requirements that buildings must meet in order to be suitable for occupancy by state agencies (for example, the construction and performance specifications in a standard state lease have grown from a 28-page to a 76-page document in just the last four years); and (3) the loss of experienced staff (for example, the percentage of leasing staff and planning staff with less than five years of experience doubled between 2003/04 and 2006/07—from 19 to 38 percent and 12 to 33 percent, respectively).

According to the DGS, the delay in processing the RELPS workload results in real financial consequences to the state. For example, the state occupies a relatively stronger bargaining position when renewing a lease if the negotiations with the landlord are initiated 6 to 8 months in advance of the expiration instead of afterward. The difference in price may only be on the order of \$0.15 to \$0.25 per square foot, but because the DGS manages 1,861 leases or about 18.9 million square feet, the potential savings (realized or lost) runs into the millions of dollar, per year.

While this BCP provides compelling evidence that the RELPS probably needs additional resources to address increased workload and work down the current backlog, staff notes that the DGS' assumptions for out-year workload may be overstated. For example, the workload projections are based only on the past three years and do not include previous years in which the state faced fiscal crisis—2002/03 or 2003/04. While the DGS maintains that tight fiscal constraints can actually generate additional RELPS workload by encouraging departments to reorganize or consolidate office space and/or leases, staff notes that data supplied as part of this request indicate that past workload has fluctuated significantly. For example, the RELPS was able to work down approximately 25,000 hours of backlog in 2003/04 during poor fiscal times.

The subcommittee may wish to consider reducing this request unless the DGS can provide additional documentation to support its contention that the current fiscal crisis is not likely to affect projected workload. Additionally, the subcommittee may wish the DGS to discuss the steps it has taken to address succession planning in the RELPS.

Staff Recommendation: HOLD OPEN to allow staff more time to consult with the DGS on this proposal.

6. BCP-9: State-Owned Space Planning Workload. The DGS requests 7.0 positions and \$614,000 (Service Revolving Fund) in order to address a backlog of space planning projects within state-owned facilities.

Staff Comment: This request is similar in several ways to the RELPS workload request above (Item #5). The DGS indicates that the Studio 1, State Owned Planning Unit has received several “unanticipated” large scale and high priority projects at a time when the complexity of the work has increased due to several factors, including the Governor’s Executive Order on Green Building, increased scrutiny of and departmental liability for accessible features for persons with disabilities, and extensive security, safety, and access control improvements in the wake of 9/11. According to the DGS, the quantity and area of buildings served by the unit has also increased steadily in the recent past, with Studio 1 providing services statewide in 59 DGS-owned and DGS partial-services buildings totaling over 16 million square feet. As a result, each planner/architect is currently assigned 1.74 million square feet of building area, over double the industry suggested standard of 750,000 square feet. If this request is approved, and three more buildings currently under renovation are added to the DGS portfolio, the DGS projects that the service area per planner/architect would be reduced to 1.2 million square feet by FY 2010-11 (it would be lower in the interim).

Although the DGS makes the case that space planning workload has increased, the department should be prepared to justify the proposed expenditure by demonstrating that the benefit/savings/cost avoidance generated by the additional positions would offset their cost.

Staff Recommendation: HOLD OPEN.

VOTE:

7. BCP-11: Client Radio Replacement Program. The DGS requests 22.0 positions and \$3.2 million (Service Revolving Fund) for implementation of public safety communications in accordance with a BCP in the 2008-09 Caltrans budget.

Staff Comments: This program was originally approved as a Spring Finance Letter during the 2007-08 budget process. All costs associated with the DGS portion of this project will be recovered through billing to Caltrans. Therefore the subcommittee’s action on this request should conform to its action on the corresponding Caltrans request.

Staff Recommendation: CLOSE the item recognizing that it will conform to the action taken in the Caltrans budget.

VOTE:

8. BCP-12: AB 900 Bond Accounting Workload. The DGS requests 5.0 positions and \$464,000 (Service Revolving Fund) to address increased bond accounting workload resulting from the \$7 billion in new State Public Works Board revenue bonds authorized

under Chapter 7, Statutes of 2007 (AB 900) for the Department of Corrections and Rehabilitation Prison Bed Construction Project.

Staff Comment: As yet, no AB 900 projects have been approved, so the workload supporting this request is speculative. Although bond accounting workload will undoubtedly emerge eventually (since the state must build new prison capacity), the subcommittee may wish to hold this item open to allow the workload “picture” to become clearer in the event any projects are approved before the end of the budget subcommittee process. Additionally, the subcommittee will want the Administration to demonstrate that the CDCR and the DGS are coordinating their efforts with regard to AB 900 implementation.

Staff Recommendation: HOLD OPEN.

9. BCP-10: Legal Services Workload. The DGS requests 3.0 positions to address additional workload in the DGS Office of Legal Services (OLS).

Staff Comment: According to the DGS, the positions requested are justified by increased workload due to the following:

- Chapter 558, Statutes of 2005 (SB 954)—As of January 1, 2007, the DGS was required to review multi-million dollar requests for proposals for information technology projects prior to their release to the public.
- Strike Team Overseeing Prison Expansion—An OLS staff was assigned to a team assisting to the Department of Corrections (CDCR) on prison facilities expansion.
- FI\$Cal—OLS staff are providing assistance to the Department of Finance with respect to information technology on the proposed financial management information system.
- Green Technology—OLS staff attend meetings and provide advice to the Green Action Team created by the Governor under *Executive Order S-20-04*.

As noted in Item #8 (above), the state has yet to move forward in approving any projects as part of the planned prison expansion. Therefore, the workload associated with the position requested for the Governor’s CDCR Strike Team is speculative. Similar to the staff recommendation for Item #8, the subcommittee may wish to hold this item open to allow the workload “picture” to become clearer in the event any projects are approved before the end of the budget subcommittee process.

Staff Recommendation: HOLD OPEN.

10. BCP-13: Architecture Revolving Fund (ARF) Deficit. The Administration has notified the Legislature via this BCP that there is a \$14.7 million deficit within the DGS’ ARF. The DGS proposes a multi-faceted plan to resolve the ARF deficit, but the plan is still under discussion within the Administration and could result in a Spring Finance Letter, DOF Budget Letter or Budget Bill Language.

Staff Comment: The ARF is a depository for moneys appropriated for new construction, major construction and equipment, minor construction, maintenance and equipment, and other building improvement projects. According to the DGS, the deficit condition has occurred in 11 of the past 12 years and is the result of several factors, including the following:

- **Construction Delays**—Delays have resulted in construction costs that, due to inflation, far exceed project estimates.
- **Budget Package Rates Set Too Far in Advance**—Hourly rates in budget packages are set five years in advance to accommodate the state budget process which means that they do not account for incremental changes in employee compensation, retirement adjustments, or escalation of construction costs.
- **Cancelled Projects**—On large projects the DGS receives a loan to cover initial project costs, but when a project is suddenly canceled the DGS is forced to absorb the now unfunded costs in the ARF.
- **Unfunded Projects**—The DGS is frequently requested to perform alteration and construction projects for the Administration's central service agencies which are unbudgeted and do not have fund sources.

The DGS reports that between 2002-03 and 2006-07, a total of 902 ARF projects closed in a deficit position.

The DGS has proposed a multi-pronged strategy to address the ARF deficit and staff recommends the subcommittee wait until the proposal is more fully formed before weighing its merits. In the meantime, however, the subcommittee may wish the Administration to explain how and why it has approved unbudgeted projects that have contributed to the ARF deficit. To the extent that the other factors listed above may be remedied by changes to the budgeting process, the approval of unfunded projects would appear to be a policy change that this Administration (and future Administrations) must be willing to make and abide by.

Staff Recommendation: HOLD OPEN.

11. TBL: Earthquake Safety Bond Act of 2008. The Governor proposes TBL to place a \$300 million general obligation (GO) "earthquake safety" bond measure on the November 8, 2008 ballot. The bond proceeds would be used to fund state building or facility projects determined to be eligible for retrofitting, reconstruction, repair, replacement, relocation, or other seismic hazard abatement consistent with the process specified in the Earthquake Safety and Public Building Rehabilitation Bond Act of 1990.

Staff Comment: The decision to place another GO bond before the voters is a policy choice for the Legislature that should be taken up outside the budget process, consistent with past GO bond decisions. Staff notes that the Governor proposes to fund a number of "seismic safety" Capital Outlay BCPs (COBCPs) from proceeds of the proposed earthquake safety bond. These items appear in the "Vote-Only" portion of this agenda with a staff recommendation to deny them without prejudice until and unless a funding source can be identified.

Staff Recommendation: DENY the TBL.

VOTE:

VOTE-ONLY ITEMS:

Group A – “Seismic Safety” COBCPs Without an Existing Fund Source

1. COBCP: Renovation of H and J Buildings—Patton State Hospital. The DGS requests \$42.9 million (from proposed Earthquake Safety Bond proceeds) to create intermediate “swing space” and begin seismic renovations of four buildings at the hospital. Due to growth in the hospital population at all state hospitals, the Department of Mental Health is unable to relocate the patients during construction.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

2. COBCP: Structural Retrofit—Sierra Conservation Center, Jamestown Facility. The DGS requests \$1.7 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of Buildings E and F at the Jamestown Facility. The DGS has determined these structures to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

3. COBCP: Structural Retrofit—CIW Walker Clinic and Infirmary, Corona. The DGS requests \$5.2 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of both the Walker Clinic and Infirmary at Department of Correction’s California Institution for Women—Walker Clinic at Corona. The DGS has determined this structure to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

4. COBCP: Structural Retrofit—Vacaville Correctional Medical Facility, Wings U, T, and V. The DGS requests \$3.4 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the Vacaville Correctional Medical Facility, Wings U, T, and V. The DGS has determined these structures to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

5. COBCP: Structural Retrofit—California Correctional Center, Vocational Building F, Susanville. The DGS requests \$6 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the Vocational Building at the California Correctional Center in Susanville. The DGS has determined this structure to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

6. COBCP: Structural Retrofit—Department of Mental Health (DMH) Metropolitan State Hospital – Wards 206 and 208, Norwalk. The DGS requests \$4.1 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the DMH Metropolitan State Hospital – Wards 206 and 208, Norwalk. The DGS has determined these structures to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

7. COBCP: Structural Retrofit—CDC CCI Tehachapi Chapels Facility (Building H). The DGS requests \$1.9 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the Chapels Facility (Building H) at the California Department of Corrections Tehachapi facility. The DGS has determined this structure to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

8. COBCP: Structural Retrofit—Hospital B-50 at Lanterman Developmental Center, Pomona. The DGS requests \$1.8 million (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of Hospital B-50 at Lanterman Developmental Center. The DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$39.4 million over seven years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

8. COBCP: Structural Retrofit—Metropolitan State Hospital – Vocational Rehabilitation Building. The DGS requests \$361,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of Hospital B-50 at Lanterman Developmental Center. The DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$39.4 million over seven years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

9. COBCP: Structural Retrofit—Metropolitan State Hospital – Wards 313 and 315, Norwalk. The DGS requests \$375,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of Wards 313 and 315 at Metropolitan State Hospital. The DGS has determined these structures to be seismically

deficient. Total project costs are expected to be \$5.5 million over three and one-half years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

10. COBCP: Structural Retrofit—Sonoma Developmental Center – Multipurpose Complex. The DGS requests \$306,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of the Multipurpose Complex at Sonoma Developmental Center. The DGS has determined these structures to be seismically deficient. Total project costs are expected to be \$4.0 million over two years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

11. COBCP: Structural Retrofit—Atascadero State Hospital – East West Corridor. The DGS requests \$292,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of the East West Corridor at Atascadero State Hospital. The DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$5.3 million over three years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

12. COBCP: Structural Retrofit—Metropolitan State Hospital – Volunteer Center. The DGS requests \$166,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of the Volunteer Center at Metropolitan State Hospital. The DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$2.2 million over two and one-half years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

STAFF RECOMMENDATION ON “GROUP A” VOTE-ONLY ITEMS: DENY Items 1-12 without prejudice toward the need to begin seismic renovations of these structures.

VOTE on “Group A” Vote-Only Items 1-12:

Group B – BBRs, BCPs & COBCPs

1. BBR: Capitol Maintenance and Repair. As part of his 10-percent, across-the-board GF reductions, the Governor proposes to reduce funding for State Capitol maintenance repairs by \$794,000.

Staff Comment: This reduction would delay overall maintenance and repair projects, resulting in deferral of lower priority work. Staff notes that the Legislature approved a \$1.2 million current year reduction to this program in the special session.

2. BCP-3: Infrastructure Studies for DGS-Owned Buildings. The DGS requests \$230,000 (Service Revolving Fund) in additional, one-time funds to prepare infrastructure studies for older DGS-owned office buildings (the Hugh Burns State Office Building in Fresno and the Edmund G. "Pat" Brown Building in San Francisco) according to the schedule presented in the DGS' Five Year Capital Outlay and Infrastructure Plan.

3. BCP-5: Ronald Reagan Building—Custodian Staffing. The DGS requests blanket position authority for 14.0 positions to perform custodial work at the Ronald Reagan Building. Funding for these positions would be realigned from existing resources within the Building and Property Management Branch (BPM) of the DGS.

Staff Comment: The DGS indicates that prior to 2002 budget reductions, the BPM contracted out for custodial services; however, that contract was cancelled as a cost saving measure. Based on the DGS historical staffing standard for custodian positions, the building is currently significantly understaffed and the DGS indicates that not only have tenants voiced displeasure over the state of the building, but the inability to tend to detail cleaning is causing floor and wall finishes to begin to deteriorate before their useful life expectancy.

The DGS proposes to fund the requested positions out of existing resources within the recurring maintenance budget of the Building Rental Account. This will lead to a minimal but adverse impact on deferred maintenance and operations in the 28 buildings supported by the account.

4. BCP-6: New DGS-Owned Facility—Caltrans District 3, Marysville. The DGS requests 20.0 positions and \$2.9 million (Service Revolving Fund) to manage and operate the new California Department of Transportation (Caltrans) District 3 Marysville office building.

Staff Comment: The new building is currently under construction, but is projected to be ready for occupancy in August 2008. Caltrans District 3 currently has a staff of 7.0 positions performing some operations and maintenance services for the existing facility and the department has requested that these personnel be transferred to the DGS as part of the agreement to provide operations and maintenance services to the new facility. (These staff are included in the 20.0 positions reflected above.)

5. BCP-7: Board of Equalization Building—Operations & Maintenance Staff. The DGS requests 14.0 positions and \$808,000 (Service Revolving Fund) in BY+1 to adequately staff the operations and maintenance (O&M) of the Board of Equalization Building in Sacramento. The BY costs of this proposal would be funded through redirection of existing resources.

Staff Comment: The DGS provided custodial and engineering services at this building while it was under BOE ownership; however, now that the DGS has full responsibility for the building (the Legislature approved the transfer of ownership last year), inadequate staffing levels need to be corrected in order to maintain the highest and best use for the

asset's full life. According to the DGS, the current level of O&M staffing is based on a short-term approach to managing the investment instead of the DGS' facility management practices for a long-term investment. Similar to the Ronald Reagan Building request above, much detail cleaning and carpet and hard floor care and maintenance are currently not being performed and a preventative maintenance backlog is developing.

6. COBCP: Library and Courts Building Renovation. The DGS requests reappropriation of \$43.7 million (Service Revolving Fund) for construction costs associated with renovation of the Library and Courts Building in Sacramento.

Staff Comment: The DGS indicates the funds were originally appropriated in FY 2005-06, with provisional language requiring an approval to proceed to bid by June 30, 2008; however, when the original plan to phase construction around continuous occupancy of the building had to be scrapped, the project was delayed. The variation from the original project schedule is as follows:

	Original	Current	Variance
Commence Working Drawings	July 2006	June 2007	11 months
Bid Date	November 2007	February 2009	14 months
Completion Date	January 2010	October 2010	10 months

The DGS now requests a reappropriation to eliminate the risk of losing the availability of the construction funds in the event of further potential delays during working drawings development.

7. COBCP: Structural Retrofit—National Guard Armory, Stockton. The DGS requests \$254,000 (Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990) for working drawings for the Stockton National Guard Armory. The DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$2.4 million over five years, with construction costs to be funded with proceeds from a proposed Earthquake Safety GO Bond.

Staff Comment: Staff notes that last year the Legislature approved funding of working drawings for a number of other structural retrofit projects using the same funding source (remaining Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990 fund balance). Consistent with those prior approvals, the Legislature may fund the development of working drawings and reserve the decision on how to fund the construction phase until a later date.

8. COBCP: Structural Retrofit—Metropolitan State Hospital – Vocational Rehabilitation Building. The DGS requests \$361,000 (Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990) to develop preliminary plans for the seismic retrofit of the Vocational Rehabilitation Building at the Metropolitan State Hospital. The DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$4.6 million over two years.

Staff Comments: Similar to the Item #8 above, this proposal is consistent with seismic retrofit requests approved last year. Staff notes that the DGS anticipates requesting working drawings and construction funding in FY 2009-10 and FY 2010-11, respectively.

9. COBCP: Structural Retrofit—Metropolitan State Hospital – Library. The DGS requests \$334,000 (Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990) to develop preliminary plans for the seismic retrofit of the library building at the Metropolitan State Hospital. The DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$4.4 million over two years.

Staff Comments: Similar to the Item #8 above, this proposal is consistent with seismic retrofit requests approved last year. Staff notes that the DGS anticipates requesting working drawing and construction funding in FY 2009-10 and FY 2010-11, respectively.

STAFF RECOMMENDATION ON “GROUP B” VOTE-ONLY ITEMS: APPROVE Items 1-9 as budgeted.

VOTE on “Group B” Vote-Only Items 1-9:

1955 Department of Technology Services

The Department of Technology Services (DTS) was created in 2005 by the reorganization and consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The DTS serves the common technology needs of state agencies and other public entities. The DTS maintains accountability to customers for providing secure services that are responsive to their needs and represent best value to the state. Funding for DTS is provided by contracts with other state departments.

The Governor's budget funds 805.5 positions (a net increase of 37.7 positions relative to current year adjusted totals) and expenditures of \$279.6 million (special fund).

VOTE-ONLY ISSUES

1. BCP: Prior Year Project Expenditure Adjustments. The Administration requests to reduce the DTS' baseline budget to align appropriations with the ongoing costs of related projects. The proposed reductions decrease expenditures by \$23.4 million in the budget year. The DTS is a fee-for-service organization and operates solely upon reimbursements. This BCP requests the funding authority needed to meet customer's needs and requirements.

2. BCP-1: Mainframe Central Processing Units Capacity. The Administration requests 4.0 positions and \$4.3 million (DTS Revolving Fund) to purchase mainframe processing capacity in order to meet projected workload increases and upgrade software. The DTS anticipates a need for 1,040 additional Millions of Instructions Per Second (MIPS) for the seven CPUs in the budget year. This capacity growth need is primarily driven by population growth and the corresponding impact on departments' IT needs.

3. BCP-2: Midrange Server Capacity Augmentation and Refresh. The Administration requests 11.0 positions and \$14.7 million (DTS Revolving Fund) to allow for the replacement of 60 UNIX and 183 Windows servers and purchase capacity to support 28 new UNIX servers and 105 new Windows servers. The DTS has identified an anticipated customer-driven workload and seeks to accommodate more than 450 customer entities with this more modern capacity.

Staff Comment: The Legislature approved a similar request last year that did not include positions because, at the time, the DTS had not developed a methodology to justify them. Staff notes that the DTS developed the staffing estimates for this BCP using the following guidelines:

- UNIX Servers—A server/administrator ratio of 11:1 per the Gartner Group. The DTS proposal would maintain a 20:1 ratio.
- Windows Servers—An industry standard server/administrator ratio of 35:1. The DTS proposal would provide a 32:1 ratio.

Staff notes that the ratios targeted by the DTS appear reasonable, but have not been exhaustively vetted by legislative staff. In recognizing that the DTS received no positions in support of the servers approved last year and approved this request in the budget year, the Legislature reserves the right to reevaluate the validity of the DTS server/administrator ratio in the future.

4. BCP-3: Network Workload Capacity. The DTS requests a \$3.2 million (DTS Revolving Fund) to procure network optimization tools, upgrade circuits and switches to meet traffic density requirements, and replace routers and switches which have reached end of life. The funding would accommodate existing and projected increases in workload resulting from customer program growth and changes.

Staff Comment: According to DTS estimates, this request would address the department's bandwidth growth needs for the next three to five years.

5. BCP-4: Data Storage Capacity. The DTS requests 9.0 positions and \$8.7 million (DTS Revolving Fund) to purchase disk storage, tape storage technology, and connectivity infrastructure for the capacity workload increase related to enterprise storage needs.

Staff Comment: Similar to the Midrange Server request (Item #3 above), the staffing estimates for this BCP are based on a Gartner industry benchmark of one staff position per 3-5 terabytes. The DTS indicates that the DOF has agreed that a ratio of one staff position per 8.4 terabytes is appropriate to provide the current level of service. As with the Midrange Server request, the Legislature reserves the right to reevaluate the validity of the DTS staff/storage capacity ratio in the future.

6. BCP-5: Customer Departmental Projects (New IT Projects). The DTS requests 5.0 positions and \$5.0 million (DTS Revolving Fund) to address workload generated by customer new IT projects which have been approved by the DOF. This request includes 208 additional servers.

Staff Comment: The DTS has taken a different approach in the 2008-09 budget by differentiating between the service needs of existing projects (see Items 2-5 above) and new projects. This BCP reflects only the hardware, software, storage, and staff service needs generated by new projects.

STAFF RECOMMENDATION ON VOTE-ONLY ITEMS: APPROVE Items 1-6 as budgeted.

VOTE on Vote-Only Items 1-6:

DISCUSSION ITEMS

1. BCP-6: Security Workload. The DTS requests 4.0 positions and \$415,000 (DTS Revolving Fund) to address serious security deficiencies in the current DTS systems and architecture.

Staff Comment: This request contained no quantified workload justification when it was transmitted to the Legislature. Staff only recently received a workload analysis which turned out to be incomplete. Therefore, staff is unable to make a recommendation at this time.

Staff Recommendation: HOLD OPEN, pending additional information from the Administration.

2. BCP-7: Facilities Project Staffing. The DTS requests 1.0 position and \$673,000 (DTS Revolving Fund) to establish a Facilities Project Office (FPO) to coordinate moves from leased facilities in Sacramento to a leased data center facility in the Central Valley and a leased office building in Rancho Cordova. The request consists of \$554,000 one-time for consulting services and \$119,000 ongoing for the position.

Staff Comment: The DTS currently occupies space in seven buildings, including two facilities that house its data centers—Gold Camp and the Cannery. Shortly after the merger of the Stephen P. Teale Data Center and the Health and Human Services Agency Data Center in July 2005, the DTS determined that the Gold Camp facility would be the department's main site or "hub" since it was a state-owned building and a state of the art data center. While most of the technical staff were located at Gold Camp, the Cannery site was inadequate to house all of DTS' remaining staff, and so they were placed in primarily leased space in other locations.

A July 2006 analysis conducted by the DTS determined that the Cannery data center had several infrastructure problems such as inadequate electrical and cooling systems and was located, along with another leased location containing raised-floor space, in the 100-year floodplain. As a result of the Cannery's vulnerability and the belief that it could save money on leases by consolidating its facilities, the DTS embarked on a multi-year plan to:

- Acquire a long-term lease for a data center in the Central Valley to house equipment that could not be housed at Gold Camp and to act as DTS' operational recovery site should the Gold Camp facility go down.
- Acquire 100,000 square feet of leased office space near the Gold Camp facility (Rancho Cordova) to house all non-technical and some technical staff.

The DTS has been working with the DGS on the above facilities plan for approximately two years and currently plans to begin operations at the Central Valley data center in December 2010 and occupy the Rancho Cordova facility in 2011. Although the precise costs are as yet unknown, the DTS estimates the move to these facilities is over \$5 million and about \$4 million, respectively. While the DTS expects to submit future budget requests for the costs associated with these moves, the department is requesting to establish an FPO to be responsible for overseeing, coordinating, and monitoring all of the activities associated with vacating four existing Sacramento leases and ensuring the operation of the new Central Valley facility.

Given the extensive work the DTS has conducted to develop the relocation and consolidation plan outlined above, it is unclear to staff why the department needs an additional position to continue activities associated with the plan (instead of redirecting the resource(s) currently engaged in locating a new facility toward coordinating the move).

Staff Recommendation: DENY the request.

3. BCP-8: eServices Staffing. The DTS requests 3.0 two-year limited-term (LT) positions and \$323,000 (DTS Revolving Fund) to permanently continue the functions of the Office of eServices (Office) which was previously established on a temporary basis in the State and Consumer Services Agency (SCSA).

Staff Comment: A state World Wide Web (Web) portal was first implemented in 2001, but due to severe budget constraints, a permanent business owner for the portal was never established. As a result, responsibility for the portal's hardware and software fell to the Stephen P. Teale Data Center (now part of the DTS), and all departments were required to pay a fee to support the annual ongoing costs of the portal (expenditure authority for this purpose is currently \$3.6 million). However, without a single entity responsible for the development and standardization of policies and procedures for the portal, there was no consistency or guidance for the way in which departments updated their web site's "look and feel" (most had to rely on vendors), and no mechanism available for department webmasters to share ideas and web components or lessons learned. Essentially, each department had to "reinvent the wheel" on their own and without any outside training and support.

To address these problems, in August 2006, the state CIO and the SCSA created the Office to be a proof of concept to establish an organization that would be the business owner of the state portal. The Office was staffed by three state employees on loan from three different departments, and those staff set about improving and standardizing the portal. For example, the Office worked with the DTS to develop a new look and feel for the state portal and have worked with state departments since January 2007 to implement it (that same month, based on a survey of portal users, the DTS also replaced the old, inadequate search engine with a Google Search Appliance). While adoption of the new look and feel is still underway, the Office's loaned staff have been recalled by their home departments.

In requesting positions to continue the Office's work, the DTS indicates that a survey of 19 agencies who have converted to the new look and feel of the state portal has produced the following data:

- Only two agencies (or approximately 10 percent) now require vendor assistance to operate their website, compared to nearly 80 percent who required it in 2002. According to the Office, anecdotal evidence suggests that the average cost for an agency to hire a vendor was \$200,000, which means that, unadjusted for inflation, the conversion has generated an estimated \$2.82 million in savings.
- In the last web conversion, 80 percent of 400 Uniform Resource Locators (URLs) required vendor assistance to convert at an average cost of \$200,000 per website for an overall cost in excess of \$60 million. This time, with the help

of the Office, more than 80 percent of the departments did the conversion by themselves, and those that needed a vendor to do the coding spent under \$100,000, for a savings of approximately \$50 million (relative to the last web conversion).

Although the DTS believes the continuation of the Office on a permanent basis is justified, the department was not prepared to provide a long-term workload justification. Thus, the DTS is requesting LT positions until a thorough workload analysis can be performed. Staff notes that the DTS has already administratively established these positions in the current year.

Staff Recommendation: APPROVE the request.

VOTE:

8620 Fair Political Practices Commission

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974. The objectives of the Political Reform Act are to ensure that election campaign expenditure data is fully and accurately disclosed so that the voters may be fully informed, inhibit improper financial practices, and regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.

The Governor's Budget begins by funding 78.1 positions (the same as in the current year) and expenditures of \$8.2 million GF, but then includes a 10 percent, across-the-board, unallocated General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of approximately \$825,000 (see the Discussion Item below).

DISCUSSION ITEM

BBR: Unallocated GF Reduction / FL: Partial Restoration of GF Reduction. The Governor proposes an \$825,000 unallocated GF reduction to the FPPC's budget, but, through a Spring Finance Letter (FL), seeks to augment the FPPC budget by a total of \$466,000 GF.

Staff Comment: This Item contains two separate, but related, GF issues. In the Governor's Budget, the Administration applied a 10-percent reduction to the FPPC's entire GF budget. However, the DOF subsequently released an FL acknowledging that the proposed 10-percent reduction was calculated including two statutory appropriations that were created by the voters through an initiative process related to the Political Reform Act (and therefore cannot be reduced without the voter's approval). Taken together, the Administration is still proposing a \$359,000 reduction to the FPPC budget.

The FPPC indicates that it would attempt to take the \$359,000 reduction in areas not originally mandated by the voters and which are not funded by statutory appropriations. These would include local enforcement responsibilities (added in 1984) and the telephone advice function (which is not specifically mandated). A staff reduction in the enforcement area would extend timeframes for disposition of cases and could result in some cases not being investigated due to lack of resources. Since the majority of cases filed impact local officials, the majority of the impact would be on local cases. The impact of reduced enforcement resources would be broader than the impact on any individual case. The enforcement actions also serve as a deterrent.

Staff notes that the FPPC plays a critical role as a political watchdog agency, helping to ensure that the public has confidence that the political process in California is free of improper influencing of public officials. Therefore, in setting its priorities, the subcommittee may wish to protect these functions and deny the Governor's proposed across-the-board cut (this would require no action on the FL). However, if the subcommittee wishes to save the \$359,000 GF proposed by the Administration, it should approve both the BBR and the FL.

Staff Recommendation: DENY the BBR and TAKE NO ACTION on the FL.

VOTE:

8640 Political Reform Act of 1974

Statute appropriates various amounts to the Secretary of State, the Franchise Tax Board, and the Department of Justice to carry out their duties under the Political Reform Act of 1974.

The Governor's Budget begins by providing \$2.8 million GF for this item, but then includes a 10 percent, across-the-board, unallocated General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of \$275,000 (see the Discussion Item below).

DISCUSSION ITEM

BBR: Unallocated GF Reduction. The Governor proposes a \$275,000 unallocated GF reduction to the Political Reform Act of 1974 item.

Staff Comment: Staff notes that the Administration only recently provided staff with the following detail on how the reduction would be allocated:

- Secretary of State to be reduced by \$79,000 (from \$790,000 to \$711,000).
- Franchise Tax Board to be reduced by \$175,000 (from \$1,747,000 to \$1,572,000).
- Department of Justice to be reduced by \$21,000 (from \$216,000 to \$195,000—with the reduction taken in program 50 - law enforcement).

However, the Administration has yet to provide any detail regarding the impact these reductions would have.

Staff Recommendation: HOLD OPEN.

8855 Bureau of State Audits

The Bureau of State Audits (BSA) promotes the efficient and effective management of public funds and programs by providing independent, objective, accurate, and timely evaluations of state and local governmental activities to citizens and government. By performing financial, compliance, and performance audits, conducting investigations and other special studies, the State Auditor provides the Legislature, the Governor, and the citizens of the state with objective information about the state's financial condition and the performance of the state's many agencies and programs

The Governor's Budget begins by funding 161.0 positions (a net increase of 6.0 positions over adjusted current year totals) and expenditures of \$17.5 million GF, but then includes a 10-percent, across-the-board, unallocated General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of approximately \$1.6 million (see the Discussion Item below).

DISCUSSION ITEM

BBR: Unallocated GF Reduction / FL: Restoration of GF Reduction. The Governor proposes a \$1.6 million unallocated GF reduction to the BSA's budget, but, through a Spring Finance Letter (FL), seeks to restore all \$1.6 million.

Staff Comment: On the eve of the release of the Governor's Budget, the State Auditor learned of the Administration's plan to reduce the BSA's budget and sent a letter to the Director of DOF to remind him of a Memorandum of Understanding (MOU). Signed in 1994, by the BSA and the DOF, the MOU directly quotes Government Code Section 8543 (part of the BSA's implementing legislation), which reads in part:

In order to be free of organizational impairments to independence, the bureau shall be independent of the executive branch and legislative control.

The MOU also recognizes another code section that provides that the BSA be "free from influence of existing control agencies that could be the subject of audits." In short, the State Auditor asserts that only the Legislature may order changes to the BSA's budget. Subsequently, the DOF released an FL on March 10, 2008, proposing a reversal of the \$1.6 million reduction to the BSA budget, but asserting that the DOF still did not agree that the proposed across-the-board reduction in any way interfered with the status of the BSA.

In terms of its audit workload, the BSA's priorities are as follows:

- Highest priority is the performance of the Single Audit (financial statements and federal compliance audit) which is required in order for the state to continue receiving \$76 billion in federal funds.
- Next, the BSA has other mandated audits, followed by investigations, and then discretionary audits requested by the Legislature through the Joint Legislative Audit Committee.
- Finally, the BSA conducts reviews on previously conducted audits to follow-up on auditees' progress in implementing the bureau's recommendations. Additionally, when resources are available the BSA has the authority to conduct

audits in areas that it has identified as high risk for the state. However, because the bureau has not had resources available, it has not conducted high risk audits, it has merely issued a high risk list as mandated.

In 2005, the BSA contracted out a portion of the federal compliance audit in response to high turnover and in order to continue responding to Legislative audit requests approved by the Joint Legislative Audit Committee. Since then, the bureau has continued to contract out that portion while trying to rebuild and grow the office. According to the BSA, a 10-percent reduction to its budget would mean that the bureau would continue to be unable to perform high risk audits, and would not be able to conduct follow-up reviews. Further, the bureau would need to conduct the full federal compliance audit and would not be able to contract out a portion. Thus, discretionary audits and follow-up reviews would suffer. A 10-percent cut would equate to six to seven fewer audits and follow-up reviews.

Given the important role the BSA's independent audit function plays in providing the Legislature, the Governor, and the citizens of the state with objective information about the state's financial condition and the performance of state agencies and programs, the subcommittee may wish to consider whether a GF reduction to the bureau's budget might wind up costing the state more money than it saves. Staff notes that if the subcommittee chooses to place a priority on funding the BSA and opts to delete the proposed reduction it may do so in two ways—either by approving both the Administration's BBR and the FL, or by simply denying the BBR outright. However, if the subcommittee believes the State Auditor's argument above is valid and wishes to assert its concurrence, it may wish to deny the BBR rather than approve the FL (which might be construed as tacit agreement with the DOF Director's assertion that the proposed reduction did not interfere with the BSA's independent status).

Staff Recommendation: DENY the BBR and TAKE NO ACTION on the FL.

VOTE:

8910 Office of Administrative Law

The Office of Administrative Law (OAL) reviews administrative regulations proposed by over 200 state regulatory agencies, and assists those agencies through a formal training program, as well as through less formal methods, to understand and comply with the Administrative Procedures Act. Through its Reference Attorney service, the OAL also provides legal advice to state agencies and members of the public regarding California rule making law. The Governor's budget funds 20.9 positions and \$2.9 million in General Fund (GF) expenditures, but proposes one Budget-Balancing Reduction (BBR) to achieve approximately \$300,000 in savings (see below).

BBR: Regulatory Oversight. The Governor proposes a reduction of \$293,000 GF to the OAL's Regulatory Oversight Program (the department's only program).

Staff Comments: The Administration indicates the proposed GF savings would be achieved by reducing spending on services, printing, communications, postage, repairs, maintenance of equipment, and purchase of new equipment. According to the BBR, the proposed reduction would limit the OAL's ability to provide training to departments whose staff would be promulgating rules on Chapter 488, Statutes of 2006 (AB 32—greenhouse gas legislation).

Staff notes that the OAL recently submitted a letter to the Chair (see Attachment B) claiming that much of the office's budget is not "actual" GF because \$1.3 million is "reimbursed" through the Pro Rata or the Statewide Cost Allocation Plan (SWCAP) cost recovery program. Additionally, the OAL noted that \$880,000 in annual expenditures is supported by revenues generated by licensing of the California Code of Regulations for publication. Instead of the Governor's \$293,000 reduction, the OAL proposes to generate savings of \$176,000 by eliminating travel and purchases of new equipment, reducing costs for messenger services by filing regulations with the Secretary of State four times weekly rather than five times, reducing to the extent possible service calls for on-site information technology assistance, and curtailing spending on office supplies, printing and telecommunications. According to the OAL, any further reductions to its Operating Expense and Equipment budget would jeopardize its fundamental ability to function and the performance of its core mission.

Other "GF," central services agencies that operate under the same cost recovery program as the OAL (for example, the Department of Finance) are subject to the same 10-percent, across-the-board reduction as that proposed for the OAL. Even if the subcommittee were to "hold harmless" the \$880,000 the OAL generates in GF revenue, the office's share of a 10-percent reduction would still be \$205,000.

Given the difference in the two messages coming from the Administration (the BBR and the OAL letter), the subcommittee will first want to get clarification on the amount of reduction the OAL would be able to absorb without adversely impacting the services it provides. Both the DOF and the OAL will need to support their respective proposals in light of the contentions of the other party. Additionally, the subcommittee may also want the LAO to weigh in since the Governor's full OAL reduction was included in the LAO's alternative budget proposal.

Staff Recommendation: APPROVE the reduction.

VOTE:

Control Section 11.00 EDP / Information Technology Reporting Requirements

This Control Section (CS) generally requires departments to obtain DOF and legislative approval before entering into an IT project contract that would increase the budgeted cost of the project by more than \$500,000 or 10 percent, whichever is less.

Staff Comment: Staff is currently in discussions with the LAO, DOF, and OCIO regarding the potential need for a technical change to tighten up the reporting required under this CS.

Staff Recommendation: HOLD OPEN.